

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 15, 2002

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE-2002-00237

For approval of a Weather
Normalization Adjustment Rider

ORDER

On April 16, 2002, pursuant to § 56-40 of the Code of Virginia ("Code") and 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, Virginia Natural Gas, Inc. ("VNG" or "Company"), filed with the State Corporation Commission ("Commission") an application for approval of a Weather Normalization Adjustment ("WNA") Rider applicable to Schedule 1 - Residential Firm Gas Sales Service and Schedule 2 - General Firm Gas Sales Service of the Company's rate schedules.

By orders dated April 29 and 30, 2002, the Commission prescribed notice and invited comments and/or requests for hearing in this case. Comments from interested persons were filed on or before June 12, 2002. The Commission's Staff (the "Staff") filed its report on July 31, 2002 ("Staff Report"). No party requested a hearing.

On August 13, 2002, VNG filed a response to the Staff Report ("Response"). The Response includes an Offer of Settlement. VNG explains that settlement discussions have been ongoing among the Staff, the Company, and the Division of Consumer Counsel of the Office of the Attorney General ("Consumer Counsel"), and that the

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Company and Consumer Counsel have reached an agreement that is memorialized in the Offer of Settlement.

In its Response, VNG explains, among other things, that under the Offer of Settlement: (1) the WNA would be implemented as an experimental rate design pursuant to § 56-234 of the Code; (2) the experimental rate design would terminate in two years from the date of approval thereof subject to Commission action either extending or making such rate design permanent provided, however, that any request by the Company for such extension or permanent rate must be accompanied by a fully adjusted cost of service study and the schedules required for a general rate case; (3) the WNA would be calculated on a real-time basis so that each monthly bill will be affected only by the weather experienced during the preceding month; (4) the WNA would be modified to track actual weather and to potentially modify bills six months, not twelve months, each year; (5) the Company commits to develop a bill format and consumer education program in a form acceptable to Staff that will inform customers of the need for, and the mechanics of operation of, the WNA program; (6) VNG's allowed return on common equity would be modified from the current range of 10.4 - 11.4 percent, to 10.0 - 11.8 percent for purposes of future Annual Informational Filings, with 10.0 percent being used to determine the write-off of deferred expenses; and (7) VNG commits not to file a base rate case, or any non-gas revenue neutral rate design proposals applicable to residential and

general service rate classes, before July 1, 2004, except under emergency conditions as set forth in § 56-245 of the Code.

NOW THE COMMISSION, upon consideration of the Offer of Settlement, the pleadings, and the applicable law, finds that we should permit comments and replies on the Offer of Settlement. The Commission is establishing expedited dates for the filing of such comments and replies in recognition of the need for this case to proceed promptly in order to reach a timely resolution of this matter.

We will permit comments by interested persons and Staff on the provisions included within the Offer of Settlement. We also are interested in comments on the following questions:

- (1) Does § 56-234 of the Code apply to the proposed WNA?
- (2) Does the notice previously issued in this proceeding satisfy the notice requirements of § 56-234 of the Code?
- (3) Does § 56-234 of the Code permit the Commission to approve an experiment without a hearing?
- (4) Does § 56-40 apply to proposed revisions of rate schedules if such proposed revisions may effect an increase in the rates charged to customers under those same rate schedules?
- (5) Are there other sections of the Code (e.g., §§ 56-235.2, -237, and -237.1) under which the Commission currently could consider and rule upon the proposed WNA, including the Offer of Settlement?

(6) Does the Offer of Settlement preclude any rate decrease prior to July 1, 2004, and how does increasing the top of the range for allowed return on common equity impact the circumstances under which any rate decrease may be imposed in the future?

(7) Does the record in this case illustrate the potential impact on customers' bills if the WNA is implemented?

(8) Is there sufficient basis in the record to rule on this case without a hearing?

These questions in no manner limit the relevant issues in this proceeding.

Accordingly, IT IS HEREBY ORDERED THAT:

(1) Comments on the Offer of Settlement, and on the questions listed herein, may be filed on or before August 29, 2002.

(2) VNG and Consumer Counsel, may file a response to the comments submitted in (1), above, and to the questions listed herein, on or before September 5, 2002.

(3) This matter is continued for further orders of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Richard D. Gary, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219; Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219;

James R. Kibler, Jr., Esquire, McCandlish, Kaine & Grant, Post Office Box 796, Richmond, Virginia 23218; Roanoke Gas Company, Post Office Box 13007, Roanoke, Virginia 24030; and John J. Reynolds, 1508 Edenburry Drive, Richmond, Virginia 23233.